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EX PARTE

February 15, 1995

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W. Room 222
Washington, D.C. 20554

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

RE: In the Matter of Price Cap Performance Review for Local Exchange Carriers
CC Docket No. 94-1

Dear Mr. Caton:

DOCKET FILE COPY ORIGINAL

Today representatives of Sprint Corporation met with Commissioner Andrew Barrett and James Coltharp his staff to discuss issues in the above referenced matter. Information on the attached, relative to Sprint's comments and reply comments submitted on May 9 and June 29, respectively, was discussed.

Representing Sprint Corporation were Jay Keithley, John Hoffman and Alan Sykes. Sprint requests that this information be made a part of the record in this matter. If you should have any questions, please feel free to call.

Sincerely,

A handwritten signature in cursive script that reads "Jay Keithley".

Jay C. Keithley
Vice President
Law and External Affairs

Attachment

cc: Commissioner Barrett
James Coltharp

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The Sprint Price Cap Plan Should Be Adopted Now

- Real rate reductions now and over the life of the plan.
- Sharing is eliminated with higher productivity option.
- Sprint's plan is balanced and pro-competition.
- Sprint's plan can be adopted now -- no need to delay.

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Sprint Price Cap Reform Plan

Comparison of Price Cap Proposals

	Current FCC Plan	Sprint Plan	AT&T Plan	Original USTA Plan	Revised USTA Plan
Upfront Rate Reduction	N/A	\$412M	\$322M	N/A	\$206M
Annual Rate Reduction	\$679M	\$927M	\$1,051M	\$474M	\$721M phasing down to \$515M
5th Year Total	\$3.4B	\$5.0B	\$5.6B	\$2.4B	\$3.1B
5 Year Cumulative	\$10.2B	\$16.0B	\$17.4B	\$7.1B	\$10.4B



Sprint Price Cap Reform Plan

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Upfront Rate Reduction	None	2.0%	1.6%	None	1.0%
Annual Rate Reduction Productivity Offset	2.8%	2.8%	5.1%	2.5%	2.5% - Rolling Average
Consumer Productivity Dividend (CPD)	.5%	1.7%	None	None	1% phasing down to 0%*
Total Annual Reduction	3.3%	4.5%	5.1%	2.5%	3.5% phasing down to 2.5%*
Sharing	Yes	No	Yes**	No	No

* USTA proposes a CPD of: 1.0% - Year 1, .5% - Year 2, .25% - Year 3, 0% - Year 4

** With lower sharing zones, starting at 11% vs. 12.25% under Current FCC Plan

SPRINT PRICE CAP REFORM PLAN

SPRINT PRICE CAP REFORM OBJECTIVES

OBJECTIVE

Achieved Through:

- | | |
|--|--|
| <ul style="list-style-type: none">• INCREASED CONSUMER BENEFITS
• INCREASED INCENTIVES FOR PRODUCTIVITY/INFRA-STRUCTURE INVESTMENT
• <u>MEASURED</u> STEPS TO ENHANCE LEC's COMPETITIVENESS | <ul style="list-style-type: none">• Access Rate Reductions Greater Than Existing Price Cap Plan
• Higher Productivity Offset• Elimination Of Sharing
• Immediate Implementation Of Zone Density• Targeted Reductions To High Density Zone Rates• Transport Residual Interconnection Charge (RIC) Phaseout |
|--|--|

SPRINT PRICE CAP REFORM PLAN SUMMARY

- **5 Year Plan**
- **Incremental Modification Of Existing Price Cap Plans**
 - **More far-reaching access reform (e.g., USTA proposal) not appropriate or necessary at this time**

Key Changes To The Existing Price Cap Plan

- **4.5% Productivity Offset**
 - **1.7% targeted to transport RIC phasedown**
 - **.8% effected through adoption of the per line cap for the CCLC**
 - **2.0% productivity offset applicable to all baskets**
- **2% Upfront Rate Reduction**
 - **Targeted to:**
 - » **High density zone transport rates, and/or**
 - » **CCLC**
 - **Requires immediate implementation of zone density**
- **Elimination of Sharing/Lower Formula Adjustment Mark (LFAM)**

Upfront Rate Reduction

- Sharing of productivity gains from first price cap period
- Required of all price cap LECs (regardless of productivity choices under the second price cap plan)
- Equal to $1/2$ of the difference between a LEC's 1991-1994 ROR and 11.25%
 - Company specific upfront reductions recognize each LEC's relative performance under first price cap plan
 - Upfront rate reduction would be credited against 1994 sharing
 - Mitigates rate churn due to reversal of 1994 sharing in 1996
 - IXC's still get, over 2 years, full benefits of both 1994 sharing and the upfront rate reduction
- Approximately equal to a 2% upfront rate reduction

ELIMINATION OF SHARING/LFAM

- **Breaks Last Link To ROR Regulation**
- **Trade-off For Higher Productivity/Upfront Rate Reduction**
- **Benefits From Eliminating Sharing**
 - **Strengthened incentives for efficiency**
 - **Diminished incentives for cross-subsidization**
 - **Reduces administrative complexity of price cap regulation**
 - **Establishes framework to accommodate further access reform of rule changes to reflect intensified competition; for example:**
 - » **Increased downward pricing flexibility**
 - » **Selective deregulation of services deemed to be fully competitive**
 - » **Risks and rewards of new service offerings or voluntary infrastructure development (e.g., video dial tone) borne entirely by LEC**

Productivity/Sharing Options

- Eliminate sharing/LFAM for LECs willing to opt for a high productivity factor
- Align productivity/sharing options to provide LECs incentive to elect progressively higher productivity offsets as their internal productivity increases
 - Requires addback methodology be used to calculate monitored ROR
- Annual productivity election
 - But once a LEC opts for 4.5%/no sharing, no reversion to lower productivity factor

Proposed Productivity/Sharing Matrix

Productivity Selection	Initial Sharing Threshold	50/50 Sharing Range	100% Sharing Range	LFAM
3.3%	11.75%	11.75 - 13.75%	>13.75%	10.25%
3.9%	12.25%	12.25 - 15.25%	>15.25%	10.25%
4.5%	-----	No Sharing/LFAM	-----	-----



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